

TENNESSEE HOUSING DEVELOPMENT AGENCY
BOARD OF DIRECTORS
March 15, 2001

Pursuant to the call of the Chairman, the Tennessee Housing Development Agency Board of Directors met on Thursday, March 15, 2001, at 1:00 P.M. in Conference Room A in Suite 1116, Parkway Towers, Nashville, Tennessee.

The following members were present: Janice Cunningham for Steve Adams, James Floyd for Jay Ballard, Sam Bartholomew, Susan Brown, William Bruce, Gerald Reed for Riley Darnell, Leigh Ferguson, Carolyn Flagg, David Hayes, Harold Hunter, Ronnie Knight, Ann Butterworth for John Morgan, John Lamar for Warren Neel, Jeff Reynolds, Jerry Sisson, and Calestine Williams. Mark Cunningham, Bill Long, and Larry Rogers did not attend.

Chairman David Hayes opened the meeting for public comment. No one asked to address the Board. Next, Chairman Hayes declared a quorum was present and called the meeting to order. Upon motion by Mr. Bruce, seconded by Mr. Knight, the minutes of the January 18, 2001, meeting were approved as distributed.

The next item on the agenda was the review of the Monthly Board Report. Janice Myrick, Executive Director, said a separate report on the Agency's mortgage program statistics for 2000 was included in the March Board packet. She pointed out that this report provides information which compares the Great Rate and Great Start programs.

The report of the Bond Finance Committee was next. Mr. Lamar said the Committee considered the Issue 2001-1 bond transaction. He said this transaction would not be for the purpose of providing proceeds to make mortgages. The proposal is for an economic refunding to pay off high interest debt and lower the Agency's cost of debt. In turn, this would create a 0% pool which could be used for lowering the interest rate on the Agency mortgage programs or to fund new programs. Lynn Miller, General Counsel, said the Bond Finance Committee approved the Plan of Financing for Issue 2001-1 after modifying the Plan to increase the aggregate principal amount from \$125 million to \$150 million. In addition, all references to an aggregate principal amount of \$125 million in the Issue 2001-1 Board resolution would be modified to \$150 million to conform with the Plan of Financing. She said if the Issue 2001-1 Board resolution is approved, the Board will be authorizing the issuance of bonds in an amount not to exceed \$150 million and will be delegating responsibility back to the Bond Finance Committee to determine all final terms and conditions of the bond issue. Ms. Miller said it is the Bond Finance Committee's recommendation to approve the Issue 2001-1 transaction. She added that Steve Adams, State Treasurer, clearly stated that he is not willing to commit to any use of the new 0% pool created until the Agency has an opportunity to see how quickly the current proceeds are being used. Upon motion by Mr. Lamar, seconded by Ms. Butterworth, the Board approved the Issue 2001-1 Board resolution, as modified to reflect a maximum amount of \$150 million.

The next item considered by the Bond Finance Committee was the request for proposal for financial advisor. Ms. Butterworth said the Agency's current financial advisor contract expires July 1, 2001. The Committee authorized the distribution of a request for proposal from firms to serve as financial advisor to the Agency. A new contract for financial advisor would come before the Bond Finance Committee and the Board before it could be signed.

The Grants Committee report was the next agenda item. Ms. Brown said the Committee heard an update on grants for the mentally ill. The Agency has been working with the Department of Mental Health and Developmental Disabilities ("DMHDD") and have awarded five grants. She said staff reported that this has been a good partnership between two state agencies.

The Grants Committee had a discussion about lead-based paint issues. Ms. Brown said staff participated in a meeting with the Department of Environment and Conservation ("TDEC") to attempt to clarify the different interpretations of HUD and EPA requirements as they relate to lead-based paint issues for HOME and Section 8. She said Ms. Miller would have a follow up meeting with the TDEC attorney. Ms. Miller said a private attorney, working with MDHA on this issue, prepared extensive research and will provide copies of the information to the Agency and TDEC. She said she believes this research will provide a reasonable basis for distinguishing the types of projects the Agency, or its grantees, do under the HUD regulations from the requirements of the TDEC regulations.

Ms. Brown said the Grants Committee discussed the Bicentennial Neighborhood status reports. The cities of Rockwood and Brownsville have completed their BNI projects. She said most other communities are well under way. The City of Chattanooga has requested a 6-month extension. Ms. Brown said one 1-year extension had already been granted. She said they are well under way and the Committee recommendation is to grant the extension which would expire November 2001. Upon motion by Ms. Brown, seconded by Mr. Reed, the Board approved a 6-month extension for Chattanooga. Mr. Ferguson abstained from voting.

Ms. Brown said the Grants Committee considered an item not on the agenda. The Williamson County Civic League is about to start construction on a 12-unit HOME project and has requested a 6-month extension. The Grants Committee recommended approval of the extension. Upon motion by Ms. Brown, seconded by Mr. Reed, the Board approved the 6-month extension for the Williamson County Civic League.

Next on the agenda was the report of the Policy & Programs Committee. Mr. Sisson said the Committee considered staff's recommendation to reinstate the Great Start program effective April 1. The amount of downpayment assistance is being reduced from 4% to 3%, homebuyer education will be required, and the interest rate will be set at 1% above the Great Rate program interest rate. The Policy & Programs Committee recommendation is for Board approval. Upon motion by Mr. Sisson, seconded by Mr. Lamar, the Board approved the reinstatement of the Great Start program with the recommended program changes.

Mr. Sisson said the Policy & Programs Committee discussed a request from a servicer for a waiver. Branch Banking & Trust of North Carolina ("BBT") purchased one of the Agency's approved servicers and wants to move the servicing of THDA loans to a non-contiguous state. He said the Agency's current policy regarding servicers is that they must be located in Tennessee or a contiguous state. BBT requests that this requirement be waived. The Policy & Programs Committee does not recommend that the requirement be waived.

The Policy & Programs Committee heard a report about a new mortgage program proposed for teachers in Tennessee. Mr. Sisson said Chairman Hayes and Ms. Myrick are involved in discussions regarding the program. The Committee agreed that they should proceed with work on the program with the goal of a having recommendation for the May meeting. Ms. Myrick reported that when she and Chairman Hayes met with Commissioner Fisher, Department of Economic & Community Development, to discuss the volume cap increase, he asked them to consider if the Agency could support the education initiative. Fannie Mae also asked about the Agency working with them on an education initiative. Ms. Myrick and Chairman Hayes, along with Ralph Perrey of Fannie Mae, met with Justin Wilson, Deputy to the Governor for Policy, to discuss how the Agency could participate in the initiative. She said these are preliminary discussions and the Governor's office is developing the program criteria. Ms. Myrick said this program is on a fast-track because the summer months are when such a program would be used for recruiting or retaining teachers. Mr. Sisson said the April Board packet will have an update on the status of the program.

Mr. Sisson said the update on resources and production was provided by Ted Fellman, Chief Financial Officer. The Policy & Programs Committee will continue to monitor resources and production.

Mr. Sisson said staff is working with Shelby County on revitalizing the Shelby County Revolving Loan Fund. The program was originally established in 1985 but it has been dormant for some time.

The Policy & Programs Committee received an update on the Contract Administration program. Mr. Sisson said this program was set up to allow the Agency to administer project-based Section 8 contracts. The Agency made payments for the first time to a limited number of projects in March and in April, the Agency will be responsible for payments to 100% of the projects. Ms. Myrick said staff worked with 341 property owners to receive and correct electronic data needed to make March payments. HUD worked with staff and made payments to property owners who did not get their data to staff in time for the Agency to make payments. There were 26 properties which did not receive payments on March 1, however, 25 have now received the March payments and staff is working with the remaining property owners.

Mr. Sisson said the Policy & Programs Committee heard a report on direct servicing. The Business Plan will be available for review and approval at the May meeting. Once the Business Plan has been approved, staff will contact the Agency's servicers.

Mr. Sisson said Ms. Miller provided several updates to the Policy & Programs Committee. First Republic Mortgage is the originating agent which did not have insurance for all of the THDA loans it originated. There are five loans remaining which are not insured. Staff will pursue legal action once the insurance status of these five loans are determined. Mr. Sisson said staff reported to the Board at previous meetings about several tax credit petitions. The dispute involves the interpretation of the 1995 Low Income Housing Tax Credit Qualified Allocation Plan relating to how staff calculated related party fees. Staff is working through the process and will continue to report back to the Committee. Mr. Sisson said Ms. Miller reported on National First Mortgage who originated two THDA loans which have gone into default and the guarantor has refused to honor its guarantee on the loans. The Agency is pursuing the repurchase of these two THDA loans by National First Mortgage or to have them otherwise compensate the Agency.

A report on the Section 8 Tenant Resident Advisory Board was the next item on the Board agenda. Don Harris, Director of Section 8 Rental Assistance, explained that the Quality Housing and Work Responsibility Act of 1998 included a requirement that public housing agencies ("PHA") establish a resident advisory board. The Agency is a PHA and must comply with the requirement. Mr. Harris described the process staff followed to select tenant based Section 8 program participants to serve on the Resident Advisory Board. The 15 member Resident Advisory Board will not have a direct relation with the Board of Directors but will contribute ideas and recommendations to staff for program related issues such as the Section 8 Annual Plan, Section 8 Five Year Plan, Section 8 public awareness efforts and other related activities. He said the first meeting will be held March 31, 2001.

The next item on the Board agenda was a report on the performance audit. Ron Erickson, Director of Internal Audit, explained that State Audit, from the Comptroller's Office, performs two types of audits. One is the financial compliance audit which is completed annually on the Agency's financial statements. There have been no findings against the Agency for several years. He said the other is a performance audit, sometimes referred to as a "sunset" audit. This is a review of the Agency to determine whether it is meeting its statutory mandates and is performed on a 6-8 year cycle. The Agency's performance audit has been completed and a draft report has been released to the Agency. Mr. Erickson said there are three recommendations in the report and staff has provided the responses to State Audit. Once the performance audit report is distributed in final form, staff will go before the Joint Government Operations Committee to discuss the report. He said the three findings were not major items and pointed

out that in 1992, there were 14 findings. Mr. Erickson said copies of the final report will be distributed to the Board.

A report on state legislation was the next agenda item. Ms. Myrick said Senate Bill 0255/House Bill 0317 creates a 9 member community development tax incentive task force to develop and oversee the implementation of a low to moderate income housing and community development program. The Agency was not mentioned as a member of this task force. Staff discussed this with Representative Bowers and Senator Dixon and the House Bill has been amended to include the Agency as a member of the task force. The bill has moved through committee in the House but Senator Dixon is not moving his part of the bill. Ms. Myrick said Senate Bill 0076/House Bill 0934 is the Agency's "sunset" legislation. This bill, which gives the Agency the right to operate until June 30, 2007, has been referred to the Government Operations Committee in both houses. She said Senate Bill 1602/House Bill 1631 causes some concern. This legislation deals with the administration of the tax credit program. At this time, there is no state law which governs the administration and operation of this program. Authority to administer the program has been delegated to the Agency by action of the Governor. Senator Ford and Representative Bowers are the sponsors. Ms. Myrick said she met with Senator Ford and David Upton, but she was not able to determine what their concerns are and why issues are being addressed through legislation instead to the Board. She said David Upton is to contact her to discuss why the bill is needed. She also said Mr. Upton stated he was acting on behalf of Harold Buehler, from Memphis, and she has not been able to make contact with him to discuss his concerns. The bill is on hold until April 10 so there have been no discussions at the committee level.

Ms. Myrick updated the Board on federal legislation. She said HR 951 was introduced this week. This legislation addresses the repeal of the 10 year rule, the simplification of the MRB acquisition cost limit which would set the limit to be no greater than 3½ times the income limit, and change some of the tax credit requirements pertaining to income levels so it would be easier to make a project economically feasible in some of the rural counties. Both Ms. Myrick and Chairman Hayes commended Toni Harris, Chief of Communications, on the excellent work she did preparing handouts on the federal issues for distribution at meetings with the Congressional delegation during the NCSHA Legislative Conference in Washington, DC. Ms. Harris was asked to prepare written statements addressing the lead-based paint issue and tenant advisory board for the meetings with the Congressional delegation.

Ms. Myrick said the NCSHA Spring Workshops will be held in Tampa, Florida, on May 5-8, 2001. Board members interested in attending should contact her, or Chairman Hayes, by the end of March. She said there have been preliminary discussions about holding the September Board meeting in the Jackson and Brownsville area. Next, Ms. Myrick stated the Kentucky HFA is arranging a meeting with the Virginia, West Virginia, and Tennessee HFAs. The purpose of the meeting, which will take place in June, is to discuss concerns about the Appalachia region and to determine if the four HFAs could join with larger nonprofits to assist the area. She will keep the Board informed of the progress of this meeting.

There was no further business to come before the Board and the meeting adjourned.

Respectfully submitted,

Janice L. Myrick
Executive Director

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